Presentation by API President and CEO Red Cavaney
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As American agriculture moves further into the field of energy, the U.S. oil and natural gas industry welcomes you. As two proud industries, each with a significant presence in both the domestic and global marketplaces, we understand that global markets will have an increasing impact on most, if not all, of what we do in the future.

For centuries, energy and food have been the engines that have given rise to mankind's ascendancy from poverty, particularly in the developing world. To give a family food, warmth, mobility, and a job is to progress toward a more stable world and to nurture an improving standard of living for man, woman and child.

The International Energy Agency forecasts that world-wide energy demand will increase by 50 percent between now and 2030. For those of us steeped in the energy business for well over a century, one stark conclusion flowing from this forecast stands out – our world, and our nation, will need available all commercially viable energy sources for decades into the future.

We must resist the siren song of those who believe one form of energy can only gain at the expense of another. The challenge before us all is to oppose those who would have us point fingers. Rather, we should join hands and work together to leverage one another's strengths. The Renewable Fuels Standard, or RFS, stands as a shining example of this latter approach. It was the right thing to do at the right time and place.

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Who would have ever thought that our collaborative efforts would have come so far, so fast? To engineer such a historic transformation of U.S. transportation fuels last year -- with nary a glitch -- is a monumental accomplishment in which all stakeholders can take justifiable pride.

While I in no way wish to diminish the countless numbers of people who deserve recognition for this stellar achievement, two among you deserve special mention for your leadership, vision and wise counsel over the years: Renewable Fuels Association President Bob Dineen and USDA Undersecretary for Rural Development Tom Dorr. The two of you have been difference-makers, for whom my appreciation only scratches the surface of my admiration for you. Thank you both.

Given the huge global appetite for energy that I earlier mentioned, energy security must be a national imperative. The U.S. oil and natural gas industry provides two-thirds of all the energy consumed each year by our nation, and the Department of Energy projects that

will also be the case in 2030, even with large increases in alternatives, renewables and energy efficiency. Our industry accepts responsibility for playing a leadership role in providing for our nation's energy security.

Energy security, not energy independence, should be our nation's energy policy framework going forward. As we take steps to meet the energy needs of future generations, we must focus on three areas: Efficiency … Technology … and Diversity.

- First, America's energy companies must continue to improve their own energy efficiency, and encourage energy efficiency in other industries and by the American people;
- Second, we must increase the use of advanced energy technologies that allow us to develop our resources cleanly and responsibly; and
- Third, we must increase the diversity of our oil and natural gas supplies, both here at home and from around the world, while alternative and renewable sources of energy continue their rapid rates of growth.

In 1980, America imported 36 percent of its oil. Today, we import 60 percent in order to meet consumer demand. And, by 2030, even with aggressive efforts to improve energy efficiency and increased reliance on alternative energy sources, oil imports of 60 percent will still be needed, according to the Department of Energy. The United States must do everything it can to access a diversity of resources around the world. "Energy independence" would be at odds with this objective.

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Thanks to the almost seamless transition of huge amounts of ethanol into our nation's gasoline pool, ethanol is gaining broader consumer acceptance. From our experience, we know that customer acceptance is the single most important factor in the success of a product, especially a transportation fuel. It is ever more essential that we work together to maintain and build the consumer acceptance of ethanol. A good measure of the success of each of our respective industries lies in the hands of the retail motor fuels customer.

I am very pleased at the high degree of cooperative endeavors underway between ourselves and so many other biofuels stakeholders. This work should be highlighted and applauded. Allow me to cite several examples:

- Our members are working with their counterparts in the biofuels and automotive industries to help ASTM International review and recommend changes to update E-85 fuel quality specifications, and to also help establish fuel quality specifications for biodiesel blends;
- Together with automakers and regulatory agencies, API and its members are working to better understand the emissions and performance characteristics of modern technology, flexible fuel vehicles (FFVs) operated on E-85 and on intermediate ethanol blends;
- API and RFA have undertaken research to address the impact of fuel-grade ethanol on the long-term structural integrity of liquid petroleum storage systems and components;

- API members and automobile manufacturers are jointly engaged in research to gain further insights as to the emission, drivability and materials compatibility characteristics of vehicles that have been operated on gasoline blends containing 20 percent ethanol; and
- API has supplied research to Underwriters Laboratories, DOE, and others that provides a baseline for materials compatibility requirements to help develop the information needed for certification of E-85 dispensing equipment.

Joint efforts, such as those I have just cited, clearly benefit consumers and help increase their level of comfort and acceptance of ethanol-blended fuels.

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While we have made dramatic progress over the past year, important questions remain. These must be addressed, if we are to build on our joint progress and ultimately realize the full potential for ethanol within our nation's transportation fuels portfolio.

Our companies have many decades of experience in producing, distributing and marketing transportation fuels and, in the spirit of cooperation, we wish to raise several potentially limiting concerns.

Adoption of state ethanol mandates is ultimately anti-consumer and not pro-ethanol. A national patchwork of differing fuels requirements and implementation regulations will likely limit the total amount of ethanol used in our country. And, it will certainly interfere with the reliable supply of fuels during times of supply disruptions, potentially increasing the volatility of fuel prices. Congress recognized this potential outcome from the proliferation of boutique fuels in gasoline and eliminated their expansion in the Energy Policy Act of 2005. The Renewable Fuels Standard, set forth in that same legislation, stresses maximum fuel flexibility.

Another concern involves wholesale infrastructure. As you well know, we were all stretched to the limit last year in maximizing ethanol integration into the national gasoline pool, in good measure due to a tight wholesale delivery infrastructure. The growth in infrastructure must keep pace with consumer demand. It can be neither faster nor slower than that demand and must also recognize the pace of technological change; for example, the time required to turn over the vehicle fleet. Greater cooperative work involving infrastructure among all stakeholders, in advance of large new volumes of ethanol production entering the market, will benefit the consumer.

E-85, at this stage in its evolution, remains a location-specific fuel. Its promise is presently being best realized in areas of agricultural concentration, especially corn, and in areas with higher levels of FFV concentration, especially fleet activity. Greater demand is clearly needed, with less than 5 percent of the existing fleet of automobiles and light-duty trucks able to utilize E-85. Large production increases of FFVs, over time, are needed to create the demand levels necessary to get retail service station owners – who are overwhelmingly small businessmen and women -- to make the significant investments

essential for expanded E-85 sales at retail. We are pleased to note automakers' commitments to higher levels of FFV production.

Although no one knows the precise ceiling number, at some point in the not too distant future, limits on domestic corn ethanol production will be reached. Too little attention is being paid to the transition from that point forward, especially impacts associated with a delay in mass-scale production of cellulosic ethanol volumes. The Energy Policy Act of 2005 contains language potentially adaptable to such a circumstance, around which stakeholders may want to begin discussions in the near future. The consequences of a failure to be adequately prepared for such an inflection point could adversely affect tens of millions of Americans and millions more in global markets.

We believe allowing market forces and consumer preferences to determine where and how ethanol is consumed is the most effective and least costly way to integrate ethanol into our nation's transportation fuels system. Last year, our industry utilized 25 percent more than the target amount of ethanol established under the RFS. Additionally, nearly 50 percent of all gasoline consumed in the U.S. now includes ethanol. Clearly, there is a bright future for ethanol, as well as for biodiesel, although the latter is starting from a smaller base. We look forward to the promise of an ever-closer relationship between our two industries in the years ahead.

I hope to return to this forum in a subsequent year to report to you on our continued, constructive collaboration on behalf of the U.S. motor fuels consumer. Working together, we can all play an important role in addressing our nation's energy security. Few endeavors could be more important. Thank you.